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Foreign Economic Trends and Their Implications for the United States

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NEW ZEALAND

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KEY ECONOMIC INDICATORS
(in millions of U.S. dollars unless noted)

FISCAL YEAR ENDING MARCH 31	1988	1989	1990	1991 Projection
DOMESTIC ECONOMY				
Population (millions)	3.29	3.31	3.35	3.40
Population growth (%)	0.4	0.6	1.0	1.4
GDP in current dollars	36,526	40,901	40,420	43,590
Per capita GDP, current dollars	11,102	12,357	12,066	12,820
GDP in local currency (1983=100)	34,615	34,971	34,970	35,110
% change	-1.4	1.0	0.0	0.4
Consumer price index				
% CHANGE	13.4	5.2	6.5	6.2
PRODUCTION AND EMPLOYMENT				
Labor Force (1,000s)	1609.2	1581.7	1587.0	1612.0
Unemployment (% end March)	4.1	5.0	7.4	7.8
Industrial production				
index (1983=100)	107	103	105	106
Govn't deficit as % of GDP	1.9	2.1	1.2	1.6
BALANCE OF PAYMENTS				
Exports (F.O.B.)	7,825	8,879	8,750	9,290
Imports (F.O.B.)	6,834	6,855	8,119	9,085
Trade balance	991	2,024	631	205
Current account balance	-1,208	-534	-2,425	-3,072
Foreign long-term debt	21,670	18,434	17,390	18,900
Official foreign debt interest				
payments as % of goods and	9.0	7.8	8.2	8.0
services exports				
Foreign exchange reserves	3626.5	2486.5	3253.8	3295.0
Average exchange rate				
for year (X = US$1.00)	1.62	1.56	1.70	1.66
U.S.- NEW ZEALAND TRADE				
U.S. exports to New Zealand				
(year ending 6/30) (F.A.S.)	1088.1	1176.4	1530.8	1510.0
U.S. imports from New Zealand				
(year ending 6/30) (F.O.B.)	1174.7	1239.6	1186.8	1350.0
Trade balance (year ending 6/30)	-86.6	-63.2	344.0	160.0
U.S. share of N.Z. exports (%)	14.7	13.5	13.3	14.0
U.S. share of N.Z. imports (%)	14.6	16.7	18.1	16.0

PRINCIPAL U.S. EXPORTS (1989): aircraft, data processing and office equipment, chemicals and plastics, electronic parts and equipment, telecommunications equipment, industrial machinery

PRINCIPAL U.S. IMPORTS (1989): meat (beef, veal and lamb), dairy products (cheese and casein), fish and crustaceans, wool, fruit (apples, pears and kiwifruit)

SOURCES: Department of Statistics, Reserve Bank, Embassy projections.

SUMMARY

Growth in the New Zealand economy stalled in the fiscal year ending March 31, 1990 after growing only 1 percent in the 1988/89 fiscal year. Increased domestic demand was met through a growth in imports. Although the contribution of agriculture declined, operating surplus in this key sector increased due to strong commodity prices. Private investment was buoyed by purchases of aircraft and fleet vehicles, and government investment was boosted by Telecom and Electricorp projects. Private consumption was down marginally, while public consumption grew moderately.

The merchandise trade surplus contracted in 1989/90, as imports grew strongly while exports were steady. The current account deficit widened as the invisible deficit remained strongly negative due to the influence of foreign interest expenses. Some progress was made on reducing the government deficit, but divisions in the Labour Party government eroded the benefit of this improvement. Unemployment grew as labor shedding continued due to restructuring.

The outlook for 1990/91 has worsened, primarily due to the impact of the Persian Gulf crisis and falling world prices for key export commodities. Growth is expected to reach only 0.4 percent in the year ending March 31, 1991. This should improve to 2 percent in the 1992 fiscal year. A widening government deficit and reduced income in the agricultural sector will decrease domestic demand, and the current account deficit is expected to worsen further. The newly elected National Party government has promised to reduce government expenditures and to continue efforts to further reduce inflation, but continued high employment will make its task difficult.

U.S. exports to New Zealand increased strongly in the trade year ending June 30, 1990, buoyed by aircraft sales. These sales moved the bilateral trade balance from a small deficit to a significant surplus. Despite the limited prospects for the economy, the United States should be able to maintain export levels in the 1991 trade year, with perhaps a small drop in export share. The surplus should remain, but is likely to narrow.

The United States is New Zealand's third largest supplier of its imports, as well as the third largest market for its exports. The appreciation of the New Zealand dollar against the U.S. dollar has made American goods and services increasingly competitive in New Zealand. In addition, market-oriented economic reforms have expanded the opportunities for U.S. exporters. The best sales prospects are for computers and software, security equipment, telecommunications equipment, forestry industry equipment, sporting goods, food processing and packaging equipment, medical and scientific instruments, and agricultural chemicals.

CURRENT ECONOMIC SITUATION AND TRENDS

Slow Growth to Continue: After growing only 1 percent in the 1988/89 fiscal year (ending March 31, 1989), real gross domestic product (GDP) was unchanged in the 1989/90 fiscal year. Although national expenditure increased be nearly 7 percent in 1989/90, this growth was offset by an increase of over 15 percent in the import of goods and services and a decline of 3.5 percent in exports of goods and services.

The fishing, hunting, forestry, and mining industry groups showed the best performance in 1989/90, with growth of 9.3 percent. Much of this increase is attributable to rapid growth in forestry. Manufacturing grew by nearly 2 percent after two years of decline. The sharpest decline came from utilities, with a drop of 5.6 percent, followed by a 3.1 percent fall for government services. Construction declined for the fourth year running, but the 1.6 percent fall was a sharp improvement from the 15.5 percent slide in 1988/89. Residential construction grew strongly, but was offset by a sharp contraction in nonresidential construction.

The outlook for 1990/91 has worsened, primarily due to external developments. The high price of oil from the crisis in the Persian Gulf will increase the import bill and raise the domestic price level. While the outlook for export volume is good, falling prices for dairy and wool will limit export earnings growth. On the domestic side, a difficult government fiscal situation will dampen demand. In these circumstances, real GDP is expected to grow by only 0.4 percent. In 1991/92, the export outlook should improve, but fiscal pressures may well increase. Real growth of around 2.0 percent is expected in 1991/92.

Agriculture: After very strong growth in 1987/88, agriculture's contribution to GDP dropped 4 percent in 1988/89 due to drought and another 2 percent in 1989/90. However, with strong commodity prices, the operating surplus (profits before taxes and interest costs) in the key agricultural sector grew an estimated 16 percent in 1989/90, but a fall of 6 percent is forecast for 1990/91 due to the deterioration in international conditions. Farm debt remains a problem for a number of farmers, and debt repayment will continue to be a priority. This is expected to constrain expenditure on intermediate inputs, such as fertilizer, which are currently at low levels.

Dairy farmers are expected to be especially hard hit in 1990/91. Last season the Dairy Board paid out NZ$5.80 per kilogram of butterfat. In early November 1990, the NZ$4.00 payout scheduled for the current season was reduced to NZ$3.60. Due to recovery from the drought, wool production is expected to increase despite a fall in sheep numbers, and if the Soviet Union and China return to the

market as expected demand should improve. With large stock overhangs, however, no improvement in the wool price is likely. Some increase in sheep meat production is expected, constrained somewhat by rebuilding of the flock. Herd rebuilding will also constrain growth in beef production, but low dairy prices may result in higher slaughtering of dairy cattle. A large increase in production of kiwi fruit may put downward pressure on the price. Apple production should increase by about 8 percent in 1990/91, and the high quality of the fruit should continue to command a premium price in Europe.

Investment: Gross fixed capital formation jumped by 12.9 percent in 1989/90 after a 2.6 percent contraction in the previous fiscal year. Private sector business investment rose 7.7 percent while investment by the government and state-owned enterprises grew by 22.7 percent. The increase in private investment was largely due to a 68 percent rise in transport equipment, reflecting aircraft purchases by both Air New Zealand and Ansett and an upswing in fleet vehicle replacement. A 12 percent fall in commercial building activity offset this improvement. The marked increase in government investment was due to extensive investment by Telecom (subsequently privatized) for upgrading the fiber optic network, expenditures by Electricorp on the Clyde Dam project, and widespread expenditure on new computer systems.

Weak economic activity, low business confidence, and high real interest rates will constrain investment spending in the 1990/91 year, with private business investment slowing to around 1 percent. Spending on the Maui B gas field development will be offset by further contraction in commercial building activity. High interest rates and weak growth in real incomes are expected to also slow the strong growth of residential investment from 11.8 percent in 1988/89 to only 1 percent in 1989/90. Public investment will increase only a modest 2.5 percent from the high level achieved in 1988/89. Expenditure on plant, machinery, and equipment was virtually static in 1988/89. With weak demand and inventory accumulation, such expenditures in 1990/91 will be aimed mostly at productivity enhancement rather than at production capacity expansion.

Balance of Payments: New Zealand's surplus on merchandise trade deteriorated from US$2 billion in 1988/89 to US$631 million in 1989/90. Exports showed little change, while imports grew strongly. The current account deficit widened sharply from US$833 million to US$2.4 billion as the invisible balance remained strongly negative. Export volumes were down for both meat and dairy products, but dairy export values rose on strong international prices. Fruit and timber exports increased both in volume and value terms, while both the volume and the value of wool exports fell. Import growth was broad based, with imports of aircraft, vehicles, machinery and equipment particularly strong.

Export growth should be stronger in 1990/91, particularly in volume terms. For the dairy sector, the sharp fall in prices will lead to a significant fall in the value of exports. Wool export volume should increase if China and the Soviet Union return to the market as expected, but prices will remain depressed. Forestry should continue to contribute to growth in export earnings, largely through increased log exports. Despite low consumption and investment growth, import volumes will rise somewhat due to imports of aircraft and forestry processing plant and gas extraction equipment for the Maui B gas platform. Import prices are expected to increase more rapidly, especially for petroleum products. Overall, the surplus on merchandise trade will decline further to around US$205 million.

The strong negative effect of invisibles will continue, primarily as a result of the high cost of interest on external debt. While the stock of debt is not expected to increase much, interest rates are likely to be higher due to increasing scarcity of capital in international markets. The overall current account deficit is expected to widen to over US$3 billion for 1990/91.

Government Budget: In 1989/90, the government moved to a fiscal year ending on June 30, with the quarter ending June 30, 1989 as a transitional quarter. The financial deficit as a percent of gross domestic product improved from 2.1 percent in the year ending March 1989 to 1.2 percent in the year ending March 1990. When the 1990/91 budget was introduced by the Labour Party government in July 1990, a small surplus of 0.1 percent of GDP was forecast. However, since the October election, the new National Party government has estimated that a deficit of 1.6 percent of GDP is likely. The need for a capital injection for the majority-owned Bank of New Zealand as a result of nonperforming loans in Australia required an unanticipated expenditure equal to about one-half of this change. Weaker than expected growth will increase welfare costs and reduce tax revenue, and projected higher interest rates will increase debt services costs.

These new projections represent government expenditures equivalent to around 42 percent of GDP, and the financial deficit would have been larger without the one time benefit of sales of forestry concessions. While the new government has not announced a budget for 1991/92, without changes in policy the US$1.3 billion projected in July could well reach US$2.5 billion. The National Party government has set a goal of a balanced budget by the end of its term in 1993, combined with a fall in the share of spending and taxes as a percentage of GDP. This focus on reducing expenditures is needed to reduce the fiscal drag on the economy, but it will be a difficult task politically.

Inflation: After enjoying for three quarters the consumer price index (CPI) remained but below the 5 percent mark, the introduction of an increase in the goods and services tax from 10 percent to 12.5 percent on July 1, 1989 pushed the CPI increase over 7 percent during the four quarters through June 30, 1990. However, the CPI fell to 5 percent in the September 1990 quarter. While the underlying rate should continue down, the impact of oil price increases is expected to send the CPI up again during the last quarter of 1990 and the first quarter of 1991 before declining to around 5 percent by the end of 1991.

The National Party government is committed to the goal of zero to 2 percent inflation. The agreement between the Labour Party government and the Reserve Bank calls for this level to be reached by the end of 1993. Tight monetary policy has been successful in sharply reducing inflation from the high levels experienced from 1985 to 1988, but burgeoning fiscal problems are making the task more difficult and costly in terms of high real interest rates. The new finance minister has pledged to seek a better balance in macroeconomic policy, which should relieve some of the current strain on the Reserve Bank.

Consumption: Real private consumption fell to 0.3 percent in the year ending March 1990 from 1.9 percent the previous year. Private consumption is expected to be further reduced in the year ending March 1991 under the pressure of lower real incomes and higher interest rates. Household incomes are expected to fall by 1.4 percent, but a decline in the savings rate is expected to cushion the fall in private consumption to some extent. The decline is already in evidence, and retail sales were off by 2 percent in the first half of 1990/91 compared with the same period of 1989/90. The sharpest declines were for consumer durables and automobiles. Since private consumption represents nearly two-thirds of expenditure on GDP, this decline will be a significant drag on the economy. Public consumption dropped 1.7 percent in fiscal year 1989/90, but the July 1990 budget indicates some recovery in 1990/91. This recovery is expected to offset to some extent the impact of weaker economic activity and higher inflation.

Employment: Labor shedding has continued as restructuring has resulted in increased productivity but little gain in output. From May to September 1990, the number of employed dropped steadily, falling by 37,000. A lower participation rate produced a drop of 29,000 in the labor force during this period, but the increase of 8,000 unemployed pushed the unemployment rate up to 7.9 percent.

The economic downturn in Australia is expected to result in an increase in the New Zealand labor force as New Zealanders that emigrated there return home. Combined with the weak growth forecast, unemployment is expected to remain near its current high level during 1991. Unemployment is expected to be one of the most difficult political issues for the new government.

IMPLICATIONS FOR THE UNITED STATES

There are numerous positive factors which should encourage U.S. companies to consider New Zealand for their export sales campaigns or their international investment activities: the United States and New Zealand share a common language; they have similar cultural backgrounds, and business traditions; and New Zeland has a high level of education, a broad consumer base, technological sophistication, and an increasingly open economy.

Investment Climate: The New Zealand Government welcomes nearly all forms of private foreign investment, particularly that which provides new technology or managerial skills. If the investment will result in increased exports, then it is particulary welcomed. The government permits 100 percent equity ownership for foreign firms and allows full remittance of capital and profits. The drawback of New Zealand's small domestic market is partially offset by the ability to have open access to the Australian market through the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA), which created a free trade zone between the two countries on July 1, 1990.

Many U.S. firms have found New Zealand an attractive place for investment. Once the acquisition arrangements for the purchase of Telecom by Bell Atlantic and Ameritech are complete, U.S. direct investment in the country will total over US$2 billion. The three industries with large U.S. investment are telecommunications, petroleum refining, distribution and automobile assembly. Tourism, forestry, telecommunications, finance and insurance, franchising, chemicals and food preparation also offer attractive opportunities for U.S. investors. The other major foreign investor nations are Australia, the United Kingdom, and Japan.

Trade and Investment Issues and Barriers: Trade is very important to the New Zealand economy, with around 28 percent of GDP going into exports, a relatively high ratio compared with other OECD countries. Historically, there has been a concentration on exports in a relatively narrow range of pastoral products -- mainly meat, wool and dairy products -- which account for over 40 percent of New Zealand's export earnings. Recently, however, New Zealand has been moving away from dependence on this narrow range, and exports from the forestry, horticulture, fishing and manufacturing sectors have become significant.

The New Zealand Government has increasingly come to recognize that high import barriers are inimical to the structural changes that are required for sustainable growth. The unwinding of previous policies of protectionism and excessive government intervention over the past six years by the Labour Party government improved New Zealand's ability to compete. The new National Party government recognizes that, New Zealand most continue to pursue policies that allow it to he internationally competitive.

U.S.-New Zealand Trade: The United States is New Zealand's third largest supplier of its imports, as well as the third largest market for its exports. In both categories, the first and second ranked countries are Australia and Japan, respectively. U.S. exports to New Zealand increased sharply in the trade year ending June 30, 1990 on the strength of sales of wide-body passenger planes, thus increasing the U.S. share of imports to 18 percent. This growth produced a surplus of US$340 million -- a significant improvement over the US$60-90 million deficits of the two preceding years. In the year ending June 30, 1991, the U.S. share is expected to drop to a more typical 16 percent of total imports, while remaining at about the same value. Imports from New Zealand by the United States in this period will Probably be around 14 percent of New Zealand's total exports, resulting in a surplus for the United States of about US$160 million.

Best Export Sales Prospects: The appreciation of the New Zealand dollar against the U.S. dollar has made American goods and services increasingly competitive in New Zealand. In addition, market-oriented economic reforms have expanded opportunities for U.S. exporters. The leading sales prospects are for computers and software, telecommunications equipment, security equipment, forestry industry equipment, sporting goods, food processing and packaging equipment, medical and scientific instruments, and agricultural chemicals.

A high level of computer literacy is evident in New Zealand. This talent can serve U.S. suppliers well, with opportunities continuing to open up for computer sales, as companies turn to automation to improve communications and make their operations more efficient.

In April 1989 the New Zealand Government deregulated the telecommunications industry. Consequently, competition in voice and data transmission, as well as cellular telephone networks, is rapidly increasing. In as much as U.S. equipment is considered to be the most technologically advanced in the world, U.S. firms are benefiting from the newly privatized Telecom Corporation's modernization program to update its main exchanges throughout its network.

New Zealand is experiencing a rise in crime, especially burglary, armed robbery and retail theft. As a result, there is an increased awareness of the need for surveillance and preventive security systems. Virtually all sophisticated security equipment is imported, which opens up significant opportunities for U.S. suppliers.

Another area with good potential for both U.S. equipment suppliers and U.S. investors is the forestry industry. A program to sell off most of the Crown's timber landholdings for private sector forestry

operations is well under way. In addition, the industry is poised for a boom through the end of the century, based on a convergence of a larger domestic supply of radiata pine and greater international demand for such lumber.

The wide diversity of climate and topography in New Zealand creates opportunities for many different types of sports activities. With easy accessibility to facilities, New Zealanders are very sports oriented. As the economic climate improves, more disposable income will become available for recreational pursuits, thus benefiting U.S. exports of camping goods, marine pleasure craft and outboard engines, fishing tackle, snow skis and equipment, and specialized sport footwear.

Being an agricultural, pastoral and horticultural country, New Zealand has a proven capability of producing high-quality dairy products, meat, fruit, and fish. Combined with the government's desire to increase productivity and the efficient use of resources, there has been a revitalized interest in purchasing automated food production, processing, packaging and preparation equipment, particularly for use in the tourism-oriented hotel and restaurant sector and the fast food sector.

U.S. Marketing and Investment Opportunities: At present there is only a handful of U.S. franchise operators in New Zealand. Franchise businesses typically do well during a downturn in the economy, as entrepreneurs seek well-known names and tested marketing techniques for establishing new enterprises. Thus, increasing awareness of these operations and interest among New Zealand business people provide wide scope for U.S. franchise firms to expand in this country. Franchising opportunities go beyond the fast food and restaurant sector into areas as accounting and tax services; automotive products and services; cleaning services; cosmetics and beauty services; hotels and motels; insurance services; interior decoration, and photographic, photocopying and printing service centers.

It is an excellent time for U.S. business people to take advantage of licensing and joint venture opportunities in New Zealand. The liberalization of trade, combined with the current slack in the economy, have created excess capacity in many production plants, which could profitably be utilized for manufacturing U.S. products under license. If such business activities also lead to increased employment and to greater exports from New Zealand, then the investment would he especially welcome.

Major Project Opportunities: Major project areas which offer fertile ground for U.S. companies are tenders for telecommunications equipment, air traffic control systems, airport construction programs, and petrochemical production. Cargo-handling facilities

could offer interesting opportunities, as New Zealand ports become private corporations and seek greater mechanization to make their operations more efficient.

U.S. companies are invited to take advantage of the increased level of competition and business opportunities arising from economic reform in New Zealand.